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THE NATIONAL CITY BANK OF NEW YORK

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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE upward course of stock and commodity prices during April has supplied tangible evidence of an improvement in business sentiment as compared with March. While developments during March had emphasized the elements of instability in the business situation, and its dependence upon Government support, the emphasis in April has been upon gains made despite the difficulties and uncertainties. First quarter statements have occupied a prominent place in the news, and although good reports were looked for they have been more favorable than expected. This applies to the earnings of industrial corporations as a whole, and particularly to the sales and unfilled order figures of a variety of important companies, chiefly among those making durable household goods, implements, electrical equipment, light machinery, and of course automobiles and automobile supplies. These industries generally have made the best showing since 1930. The upward movement in stock prices is due largely to their reports. Also the turn for the better in the commodity markets, which on the average have recovered the March losses, has for the present relieved the fear that a period of general price difficulty might be beginning.

All these are good and natural reasons for improvement in sentiment, and they are supplemented by some of the reports referring more particularly to the month of April. In most of the industries above mentioned, production has continued in the upward trend. Their orders for steel have slowed down the seasonal decline in steel mill operations. Residential building contracts awarded during the first half of April were 87 per cent above a year ago and since March 1st have been 38 per cent higher.

On the other hand, there are enough reports of a contrary character to keep the uncertainties to the fore, and to keep business men conservative in their planning and forward buying. Despite the improvement in residential construction, total building contract awards have continued to run materially below last year, the drop being in the public works and utilities classification.

The Easter retail trade was disappointing; the apparel and textile industries for the most part have continued depressed, with curtailment spreading; and even automobile sales during April have fallen below expectations, presumably affected, like general merchandise sales, by unfavorable weather.

The composite indexes of business which make allowance for normal seasonal movements in their computation, such as the index of industrial production compiled by the Federal Reserve Board, were somewhat lower for March than for February. The Board's index was 88 per cent of the 1923-25 average, compared with 89 the previous month and 84 a year ago. The April figure may be lower also, in view of the textile curtailment, the slight decline in steel ingot production, and the fact that gains in some other industries were merely seasonal or less than seasonal in extent.

Seasonal Recession Expected

Naturally these contradictory trends are confusing, and inspire caution. It is recognized that losses in trade due to unfavorable weather may be regained hereafter, and the greatly improved sales records of the automobile, household equipment, farm implement and similar industries for the year to date are a source of encouragement to all business men. They give evidence not only of the importance of wear and tear and obsolescence as factors in recovery, and of the endless wants of everyone for goods that will improve the standard of living, but also of the increased ability and will to spend. Nevertheless, there is no expectation that these industries will escape the usual seasonal recession and there are other industries which are afflicted by special uncertainties. For seasonal reasons if not otherwise the trend of industrial production over

the next two or three months is therefore likely to be downward.

This general description suggests that business will soon be giving more attention to the Fall outlook than to current conditions, and of course that leads into uncertainties which may not be clarified for several months to come, including crop prospects, the disposition of the legislative program before Congress, and political and economic developments abroad, especially as they affect currency values. Among the practical certainties in the outlook the chief place doubtless belongs to the program for Government expenditures. The machinery for disbursing the $4,880,000,000 appropriated for relief is being rapidly set up, with the intention of getting purchasing power into circulation through the projected public works as well as through direct relief payments. These disbursements evidently will begin to be available for trade during the Fall.

Outlook in the Industries—Automobiles

The automobile situation has been of outstanding interest during the month. It had been feared that the early rush to put automobiles on the market would lead to a correspondingly early curtailment of production, but first quarter sales equalled or exceeded the most hopeful expectations, Ford setting the high mark with gains of 106 per cent in March and 116 per cent for the quarter, over a year ago. With the larger companies sharing these gains in a substantial degree, the increase in dealers' stocks through the production of 1,063,000 cars and trucks in the first quarter was less than anticipated. Retail sales by General Motors dealers during March, for example, were within 6,000 cars of the Corporation's production for domestic use, representing an addition to stocks which is negligible for this time of year. Thus the industry was able to revise its April schedules upward without feeling that dealers were being overcrowded.

Sales have slackened during April, failing to show the normal seasonal gain over March. As stated, unfavorable weather is a principal cause, and the loss due to this condition will be largely recoverable. The accumulation of used car stocks, however, may also be a factor; it has led to a reduction in trade-in allowances on 1933 and 1934 models which tends to check sales involving such trades. Some of the motor companies feel that used car stocks are not materially out of line with sales; nevertheless the situation is one of the reasons for expecting the seasonal recession to begin with May. If so, it may be expected to continue, at a rate depending upon sales figures, until it reaches bottom in the late Summer, when the industry will go through a dull period, while allowing dealers to clean up their stocks and making the changeover to the new models to be introduced November 1. Hence the support given to business will be on a diminishing scale until perhaps October.

With allowance for the present hesitation, the record of the industry during the first four months has been a remarkable one. Despite fears that it had been rushing the season, the April production turns out to be the largest on record for the month, except in 1929. In the first quarter, the industry gave 20 per cent more employment than a year ago, and payrolls were 38 per cent larger. Both stood at the highest point since 1929. The industry has been the chief support of the "Spring rise" in other industries, through its orders for steel and other materials, and undoubtedly the business situation today would be much different, and worse, but for its good showing.

Importance of Cost Reductions

This record is offered as a comment upon the report on the automobile industry made by investigators for the National Industrial Recovery Board and published early in February, which laid great stress upon the development of labor-saving devices by the industry during the depression. It described such achievements as follows:

> In one plant the door on the 1935 model is made in two stamping operations in a matter of seconds. The 1929 automobile door had twenty-six different parts and required several times as many men to produce it. The use of the "spot and flash" welding machine today enables two men to do what it took six welders and twelve finishers to do in 1929.
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> Engineering was shown to have cut labor costs with amazing rapidity. Body framing cost $3 in 1929; it costs thirty cents today. Where hand finishing body frames of wood before paneling cost $3 in 1929, it costs twenty cents today. Where roof assembly complete in wood cost seventy cents in 1929 it costs twenty-five cents today. Where it cost sixty cents to hang one door before the depression, it costs nine cents to hang four doors today. Where body trimming cost $12 in 1929 it costs $4 today.
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> Less than five years ago a well known auto manufacturer finished 100 eight-cylinder motor blocks on a given line-up with 250 men. Today the same line-up finishes 250 motor blocks with 20 per cent more operations, using only nineteen men. Men were paid $13.20 per 100 blocks five years ago, and through use of tungsten carbide tool tips, men now do the same work for $5.20.

With or without warrant from the text of the report, these developments have been put in an unfavorable light by many commentators as being a cause of unemployment. But it may be asked how much employment the industry would be giving today, and what would be the state of the industries depending upon it for support, if it had been unable to develop these labor-saving and consequently cost-reducing devices and methods? The industry is paying hourly wage rates as high and in many cases higher than in 1929, and if there had been no economy of labor in it and in the industries supplying it, prices would necessarily be high-

er, and very substantially so. What would the market for automobiles be in that case? The country had a taste of the effects of too high prices in the Spring of 1934, when an attempt to advance prices by $25 a car quickly collapsed through its effects in curtailing sales. But by the aid of its new labor-saving practices the industry is keeping prices down, and the result is that it is now giving more employment than at any time since 1929.

The General Motors Corporation in its annual report gives a very striking example of the effects of a reduction in automobile prices in Germany, where it operates a subsidiary, Adam Opel, A. G. The reduction in this case was through the abolition of a tax, and the resulting effects are graphically described as follows:

> On March 1, 1933, the yearly tax on new motor vehicles was removed and sales were stimulated to such an extent that the industry had difficulty in meeting the increased demand. The domestic sales of cars and trucks in 1934 amounted to three times that of 1932.
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> It is interesting to observe that notwithstanding the removal of the tax, which amounted to between 6% and 7% of the consumer price of the car, the national economy was influenced so favorably by the resulting increase in volume that Government income made an important net gain, so far as this particular operation was concerned. There was a reduction in the year 1933 of Rm 50,000,000 in taxes on new cars, but offsetting this, 40,000 unemployed were put back to work in the automotive and allied industries as a result of the increased demand for that industry's products. Adam Opel A.G. alone was able to employ approximately 5,000 individuals who had not had employment for several years. These 40,000 unemployed had each cost a minimum of Rm 1,000 per year, in the form of dole and other social benefits, so that the additional employment reduced the expenses of Government by approximately Rm 40,000,000 for the period. Furthermore, because of increased employment, the Government was able to collect Rm 21,000,000 in the form of other taxes, bringing the "profit" to approximately Rm 11,000,000. Applied to 1934, preliminary estimates indicate that there will be a net gain to the Government, as compared with 1932, in excess of Rm 100,000,000 due to increased volume during 1934 which resulted in a further absorption of 80,000 unemployed workers in the industry during the year. Of necessity, these figures are approximations, but the error, if any, is on the conservative side.
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> The above facts are presented to illustrate what can be done in the way of reducing unemployment and improving the national economy by stimulating industrial activity through private initiative, as compared with throttling its progress through the ever increasing burden of taxation, and in other ways.

Capital Goods Expenditures

Also, account should be taken of the expenditures of the industry for the machines which accomplish the saving of labor and reduction of costs described in the N. I. R. B. report, and of the employment given by the companies which make the machines. Last Winter machine tool orders rose to the highest level since 1930, due to the purchases of the automobile manufacturers; and in March these orders showed a contra-seasonal increase over February, again due to buying from the automobile and other industries on the alert for new methods that will cut costs and enable them to hold their place in competition, not only within the industry, but with other industries in appealing to the consumer's dollar. This is the incentive to all industrial progress, and inevitably its benefits are distributed through increased employment and lower prices.

The steel industry, in the midst of depression and very unsatisfactory earnings reports, is carrying out an extensive modernization of its finishing equipment, which will temporarily add to its capacity; and since the capacity is already ample there is no other reason for the improvements than the need to cut costs in order to stay in the competitive race. It is impracticable to list all these projects but the United States Steel Corporation is spending $47,000,000 this year on plant; Bethlehem is installing a new sheet mill at its Lackawanna unit which will cut its costs by $6 to $8 a ton as compared with its older plants; National Steel has an improvement and expansion program partly completed; and on May 16 the stockholders of the American Rolling Mills Co. will vote on a new note issue to raise funds for refunding and, among other purposes, constructing a wide cold reduction mill.

Of course the new low cost capacity, which will be chiefly in sheets and strip, will in time force some of the present high cost capacity out of use, and the cost of that obsolescence as well as the new equipment has to be borne by the industry, all to the end that the consumer, who ultimately is the buyer of automobiles and other products using sheets, may have them at a lower price. This process of change is endless in the industries; in a competitive system they can not survive without it, and progress would stop without it. It is the road to recovery, for it is precisely in the equipment industries that employment is lowest. This is a familiar subject to our readers, in view of the emphasis heretofore put upon the need to encourage capital goods investment if the depression is to be overcome.

The automobile report mentioned placed great stress on the effort to make profits as the incentive to the development of labor-saving methods, and undoubtedly the pressure of costs upon the profit margin is always the chief incentive to efficiency. However, it is plainly a mistake to imply that the owner is the only or even the principal beneficiary of this progress. Labor benefits through higher real wages and the consumer through lower prices, while the return to capital may be judged from the showing of the General Motors Corporation in the first quarter, when upon a 20 per cent larger sales volume than last year it showed an increase of only 7 per cent in the net.

Retail Trade and Textiles

We have referred to the disappointing Easter trade, which was especially slow in the

Eastern states. Over the country trade reports have been spotted, largely reflecting the weather, and while sales have generally been better than last year, the gains have been short of hopes, considering that the Easter business fell in April this year against March last year.

The March retail figures showed extraordinary variations. Sales of the two largest mail order houses were 27 per cent above last year, while chain stores were slightly lower and department stores were off 8 per cent. The big increase of the mail order houses was due to the reception given to their Spring catalogues, which established prices substantially below a year ago, and the largest gains were in the home and farm equipment lines.

Reflecting the spotty retail trade and price uncertainties, wholesale trade has been slow. In the primary textile markets sales of cotton goods showed some improvement on the rally in cotton prices, exceeding production for the first time in a considerable period. However, the new business has not been sufficient to check the spread of mill curtailment. Sales of rayon and silk fabrics have been light; rayon yarn prices have been cut, and more curtailment is in prospect. The woolen division continues active with men's wear mills operating on the good heavyweight orders received earlier, but the current buying is slow.

Representations as to the situation of the cotton goods industry have been made to President Roosevelt, who has appointed a committee of Cabinet officers to examine them. Unquestionably the position is a difficult one. The price of the raw cotton which the industry uses has been supported by Government loans to producers, which have the double effect of upholding the futures price and of causing an abnormally high premium upon spot cotton. Due to the position of the Government in the market, and the likelihood that if Government support should be withheld from the new crop a considerable price decline would occur, mills take a risk in carrying cotton into the next season, beginning August 1; and the risk applies to distributors of cotton goods also. This uncertainty is interfering with trade, and will naturally do so until it is cleared up.

Moreover, upon cotton consumed the mills must pay the processing tax of 4.2 cents per pound, and this is their chief complaint. The other principal fibers competing with cotton are free of this tax, and cotton goods business suffers from the disadvantage. The tax, and the cost increases due to the higher wages and reduced hours assumed under the N.R.A., put the industry in the position of asking for a larger share of the consumer's income than it formerly received, and the results are evident in a decline in domestic sales as compared with last season and the season before, a loss of exports, and an increase in imports. As a result of the accumulated difficulties the industry finds itself unable to operate profitably, despite the scrapping of 7,000,000 spindles (net) in the past nine years and the limitation on the hours which those in place may operate. It is forced to curtail the employment it gives, and Mr. George A. Sloan has stated that 71 mills, employing 20,825 persons, have closed their doors since last August.

All this illustrates the inescapable disturbing effects of Government participation in the markets, and the impracticability of attempts by Government arbitrarily to alter economic relations in the effort to compensate one group of the population at the expense of other groups. We gave last month a discussion of the demoralizing effects of the A.A.A. program in the raw cotton situation, after less than two years of trial, and the representations made by the cotton mills show how they are affected by it. It is a fair statement that the problems in the cotton situation created by the A.A.A. policies have now become more difficult of solution than those which it was devised to cure.

The Crop Start

The crops are off to a slow start due to unseasonably cool and wet weather, but the moisture was needed and the lateness is recoverable. Conditions in the Spring wheat belt, where rainfall during the Autumn and Winter was much below normal, have improved in recent weeks, and surface moisture is ample for seeding and germination. If rainfall is sufficient during the growing season the Spring crop should turn out around 200,000,000 bushels, but the deficiency of sub-soil moisture in part of the area of course leaves the outcome uncertain. The Spring wheat yield will be of great importance this year, in view of the third consecutive short crop of Winter wheat. The Government's Winter wheat estimate as of April 1st was only 435,000,000 bushels, although the Chicago crop reporters had been looking for nearly 500,000,000. The reduction is due to the expected abandonment of 28 per cent of the planted acreage, reflecting the complete failure of the crop in the drouth area in the Southwest. Farther East prospects are good.

Domestic requirements for wheat are in the neighborhood of 625,000,000 bushels annually. The carryover at the end of the present season will be around 140,000,000, which is about normal. According to present indications, the total crop should be closely in line with requirements. The world wheat markets have advanced during the past month, and the world statistical position is the best in several years.

In the corn States moisture supplies are good and the delay in planting is not a grave handicap. The acreage planted to corn, according to the report of farmers' intentions, is about 9 per cent more than the acreage harvested last year, and the expectation therefore is for a substantially larger crop.

The feed situation was thus summarized by the Department of Agriculture on April 13:

Total supplies of feed grains, including corn, oats and barley, at the first of April totaled approximately 710,000,000 bushels, or about 55 per cent of the quantity on hand a year ago. Farm disappearance of feed grains from April 1 to the close of the respective crop years last season, totaled about 763,000,000 bushels. The number of animals on farms this season, however, is much smaller than last year with the number of grain consuming animal units only about 79 per cent as large as a year ago. On the basis of farm disappearance and the January 1 estimate of animal consuming units, consumption of feed grains last season from April 1 to the close of the crop year equalled about 6.4 bushels per animal unit. If consumption per animal unit this season, April to the close of the respective crop years, should equal that of last year, around 600,000,000 bushels of feed grains would be required.

This indicates a close balance in the feed markets until new crop supplies are ready, but not a shortage. Imports will probably increase, with the new Argentine corn crop about ready to ship. Pasture conditions on April 1, while below average, were best for the date since 1931. Thus the outlook is encouraging to livestock feeders and dairymen; they will have more abundant feed supplies at their disposal, while the prices of their own products, due to reduced supplies, show a strength which is a conspicuous feature of the commodity markets.

Money and Banking

The feature of the April bank figures was the recovery of bank reserves from the temporary dip experienced during March, when the collection of income tax checks and deposit by the banks with the Treasury of legal tender currency for redemption of national bank notes caused a sharp reduction. From the peak of bank reserves reached in February to the low point reached on April 3, the reduction was about $450,000,000. Even at this lowered point, however, excess reserves for all member banks approximated $1,835,000,000, and the effect of the drop upon money rates was nil.

By April 24 member bank reserves had fully recovered the losses of March and at $4,719,000,000 stood at a new peak. In New York City excess reserves were up to $781,000,000 and for all member banks to $2,085,000,000.

During April the Treasury has been paying out funds collected the previous month, both in connection with ordinary running expenses and the redemption of Fourth Liberty 4¼s on April 15, which had been called for payment and not exchanged for new Treasury issues. Also gold imports picked up again, as uneasiness over the position of gold bloc countries has been increased by the devaluation of the Belgian currency. During the period from April 1 to the 25th gold imports amounted to $125,900,000, carrying total monetary gold stocks to a new high record of $8,700,000,000. Net gold imports since the act of devaluation went in effect, February 1, 1934, to the 25th ult., amounted to $1,550,000,000 in dollars of the present standard. It is still pertinent, although hardly necessary, to comment that from every standpoint this concentration of gold in the United States is undesirable.

Current Money Rates

The two Spring months have witnessed no change in the demand for money for business purposes, and changes in interest rates, where occurring, were downward. A sharp break occurred in call money rates, which had been pegged at 1 per cent per annum. Like most other attempts to maintain fixed rates or prices this was found to be impracticable and abandoned, the quotation dropping to ¼ of 1 per cent, at which point the competition lessened. Stock exchange time money rates also eased, dropping from ¾-1 per cent for 60-90 days to ¼ of 1 per cent, and from ¾-1 per cent for 4-6 months to ⅜ of 1 per cent. No change in commercial rates. Bankers acceptances up to 90 days held unchanged, but rates on longer maturities were reduced slightly.

The average discount basis on new offerings of 9 months Treasury bills of around 0.15 per cent at the close of the month indicated little change in the market.

Reflecting the general cheapness of money, the New York Clearing House Association announced on April 29 that after May 15 no interest would be paid by members on balances carried for savings banks, on which the rate has been ¼ of 1 per cent; also, that all interest would cease on general certificates of deposit or time deposits, dated May 1, 1935, or thereafter, where the terms call for repayment within six months.

Bond Market

The pressure of investment funds makes itself manifest through continued firmness in the high grade bond market, especially in governments, national, state and municipal. Second grade bonds also did better during the month, reflecting the improvement in the stock market. On the 15th ultimo the Treasury issued a call for the remaining $1,250,000,000 of Fourth Liberty 4½s for payment October 15th next. This will clear away all that remains of the "Liberty" series, the first of the government issues payable specifically in gold coin. Inasmuch as the Supreme Court has held, 9 to 0, that the Treasury has no right to deny them redemption according to the terms of the

contract, it is not an improbable surmise that this ruling has had something to do with the determination to retire them by refunding operations which will convert them into currency obligations. Thus on March 14th last, the Treasury issued a call for the redemption of the remaining First Libertys of all series on June 15th next, and on April 21st announced that to facilitate this transaction it would offer the holders an optional exchange into either a new 30-25 year 2⅞ per cent bond issue or a 5-year 1⅝ per cent note issue. The proposal was for exchange at par if promptly accepted, but with a reservation that the price might be raised after April 29. No announcement has been made as yet for an exchange offer upon the Fourth Libertys, called for October 15th, but doubtless an offer will be forthcoming in advance of that date.

The great surplus of funds in the money markets during the past year has been very favorable to Secretary Morgenthau's refunding program, and in a statement issued in connection with the call for the last of the Libertys, he has estimated the aggregate interest savings from these operations at approximately $100,000,000 per year. This is one of the reasons why interest on the aggregate national debt is now running at only about $800,000,000 per year as against more than $1,000,000,000 per year at the peak of the war debt, although the principal of the debt now is about $2,000,000,000 greater than it was then. Another reason is that a larger proportion of the present debt is in short time issues at very low rates.

The lack of demand for money for business purposes has made interest rates very low upon all high class bond offerings, including corporation issues. Offerings that are representative of business expansion are not numerous, but refinancing has become decidedly active. The principal reason for this is the decline of interest rates and the rise of outstanding bonds above their call prices, affording the best opportunity since the war to get fixed charges on a lower basis, where the credit is good. Another reason, especially so far as corporate financing is concerned, has been the fact that under the rulings of the Securities and Exchange Commission the procedure necessary in registering new securities under the law has been greatly simplified. This is encouraging, as holding out the promise that new capital issues will be forthcoming, as soon as corporations can find uses for money, also that investment capital is available for well-established business. It is too early to say that the "jam in the capital markets is broken." There is no jam of would-be borrowers: the profits of business are not inviting enough for that, and discriminating investors still find more promising opportunities in going enterprises than in new ones.

The largest issue of the month has been $162,000,000 of refunding 3¼ per cent Federal Land Bank bonds, running 20 years, sold at a premium of ¾ per cent to yield investors about 3.16 per cent. Among private corporate issues the most notable offering was $73,000,000 Southern California Edison Company, Ltd., refunding 25 years, 3¾s per cent at 98½ flat, which is a little under the Pacific Gas and Electric's 4s per cent, reported last month, and not quite as low as the yield on the Swift & Co. 3¾ issue at par, reported last month.

The interest rates are the lowest written into contracts since the late '90s, in the period of depressions which followed the panic of 1893.

First Quarter Profits

The majority of industrial corporations which thus far have issued earnings statements for the first quarter of the year show further progress toward the recovery of profits, while most of the reports of railroads and public utility companies show a falling off as compared with a year ago. A tabulation of 210 companies engaged in various lines of manufacturing and trade shows combined net profits, less deficits, of $123,000,000 in the first quarter of 1935, which compares with $68,000,000 for the same companies in the preceding quarter and $101,000,000 in the first quarter of 1934. About 66 per cent of the individual companies made a better showing this year, either by increasing profits or by decreasing the size of their deficits, while 34 per cent made a poorer showing. In most cases where sales figures are available, a gain is shown in volume of business for the quarter over that of last year.

Comparative results for the first quarters of 1934 and 1935 are given in the accompanying summary, arranged by major industrial groups, which also shows for companies thus far reporting an indicated annual rate of return of 5.6 per cent upon net worth, which aggregated $8,803,000,000 at the beginning of the year. Net worth of numerous industrial companies declined materially in each of the five years 1930 to 1934, due to operating losses and the payment of dividends in excess of earnings, as well as to heavy writing down of assets and capitalization. This has had a favorable effect upon reported profits by automatically reducing the depreciation and other charges against gross income and has also reduced the base on which rate of profits return is figured.

The marked gain in the net profit of all reporting companies combined, amounting to 22 per cent, is largely accounted for by the im-

FIRST QUARTER INDUSTRIAL CORPORATION PROFITS

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits First Quarter 1934	Net Profits First Quarter 1935	Per Cent Change	Net Worth January 1 1934	Net Worth January 1 1935	Per Cent Change	Annual Rate of Return % 1934	Annual Rate of Return % 1935
1	Autos—General Motors	$29,320	$31,510	+ 7.4	$871,498	$872,485	+ 0.1	13.4	14.4
6	Autos—Other	D- 2,508	D- 2,008	......	118,490	101,072	—14.7	......	......
17	Auto Accessories	4,292	7,295	+ 69.9	129,930	131,035	+ 1.1	13.2	22.2
6	Baking	4,287	3,264	— 23.9	255,133	247,565	— 3.0	6.7	5.2
8	Building Materials	637	1,321	+107.3	130,004	128,026	— 1.6	1.9	4.1
12	Chemicals	21,264	22,038	+ 3.6	907,609	957,362	+ 5.5	9.3	9.2
7	Coal Mining	1,396	1,156	— 17.2	92,089	75,700	—17.8	6.1	6.1
6	Electrical Equipment	1,807	7,676	+324.7	586,997	584,415	— 0.5	1.2	5.2
14	Food Products—Misc	16,227	15,047	— 7.3	562,250	557,256	— 0.9	11.5	10.8
11	Household Gds. & Sup.	5,222	6,251	+ 19.7	238,343	238,206	— 0.1	8.7	10.4
1	Iron & Steel—U. S. Steel	D- 6,990	D- 2,174	......	1,869,187	1,840,532	— 1.5	......	......
14	Iron & Steel—Other	D- 3,771	2,044	+	1,158,666	1,124,006	— 2.6	......	0.7
7	Machinery	1,139	1,474	+ 29.4	70,648	71,808	+ 1.6	6.4	8.2
7	Merchandising	1,083	560	— 48.3	237,310	245,429	+ 3.4	1.8	0.9
6	Mining, Non-ferrous	1,417	2,205	+ 55.6	143,867	141,726	— 1.5	3.9	6.2
5	Paper and Products	416	636	+ 52.8	60,274	60,589	+ 0.5	2.7	4.1
9	Petroleum	3,463	3,355	— 3.2	488,225	457,420	— 6.4	2.8	2.9
9	Textiles and Apparel	1,489	1,768	+ 18.7	64,617	65,176	+ 0.8	9.2	10.8
43	Misc. Manufacturing	17,515	16,189	— 7.6	587,775	598,865	+ 1.8	11.9	10.8
21	Misc. Services	3,364	3,447	+ 2.4	302,413	304,416	+ 0.6	4.4	4.5
210	Total	$101,069	$123,054	+ 21.8	$8,870,325	$8,803,089	— 0.8	4.5	5.6

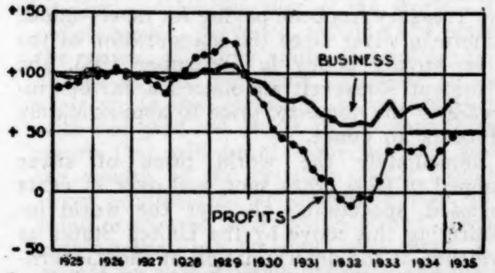
D—Deficit.

provement shown by a number of lines that made practically nothing last year or that operated at a loss. The fairly high rate of steel mill operations during the initial quarter enabled the steel industry as a whole to practically break even for the first time since 1931, with the exception of the March quarter of 1934.

Many companies in the machinery, electrical equipment, building material and other heavy industries also did better, reflecting the increased expenditures for building and modernization and the revival of demand for various classes of consumers' durable goods and for some replacement of industrial equipment, although the changes among individual companies were much less uniform than the group totals might indicate. As this tabulation is based upon the limited number of corporations which publish quarterly statements and therefore is heavily weighted by the leading companies, it indicates the trend of earnings but does not provide an accurate measure of rate of return for industry as a whole.

In the industries producing goods for immediate consumption, including baking, miscellaneous food products, chemicals and drugs, in which earnings have been relatively well maintained, a considerable number of companies showed lower profits this year due to the rise in costs. Some of the petroleum companies did better, although the industry is still depressed by unfavorable trade conditions and by heavy taxes. Increased earnings were shown by numerous companies in the automobile and accessory industries, which had an exceptionally active first quarter.

The longer-term trend of industrial profits is shown on the accompanying chart which gives an index of quarterly profits since 1925 of a representative group of 200 corporations, based upon annual rate of return, with the first quarter of 1935 partly estimated, together with the Annalist Index of Business Activity, both of which are adjusted for seasonal variation:



Quarterly Index of Industrial Corporation Profits and the Annalist Index of Business Activity. 1926 = 100.

The downward trend of railroad earnings continued during the first three months of the year. In January, all the Class I railroads combined had a net deficit of $21,991,000 and only 15 of the major systems were able to fully earn their fixed charges. For February, the latest available figures cover only the net operating income before fixed charges and show a decline of 12.6 per cent as compared

with a year previous, despite the fact that gross revenues were 2.6 per cent larger. March statements of most of the important individual railroads also show net operating income below that of a year ago.

Railroad earnings have been seriously affected by the forced increase in costs of materials and supplies caused by the NRA; also by the restoration of wages to the 1929 peak level, the final instalment of the restoration, amounting to 5 per cent, having gone into effect April 1. Last year the net deficit of the Class I railroads was $32,251,000 and only 11 major roads in the United States paid any dividends whatever on their common stock.

Slightly lower net income of the public utility companies supplying electric light, power and gas is indicated by a limited number of reports that have been issued to date covering the three months or the twelve months ended March 31, while the net income of the American Telephone & Telegraph Company in the first quarter was 6.2 per cent below last year and the smallest for any first quarter since 1926.

The Rise of Silver Prices

The renewed rise of silver prices within the past month has drawn attention once more to the world-wide scramble for this metal induced by the United States buying program. For several months prices had been holding comparatively steady around 54 cents, but in March they began to climb again on depleted supplies resulting from continued U. S. Treasury buying, foreign speculative demand based on the U. S. program, and an embargo on silver exports by China. By April 10 the world price of silver had got up practically level with the domestic price of 64.64 cents an ounce which the Treasury has been paying for newly-mined American silver since the inauguration of the silver-buying policy in December 1933, and President Roosevelt announced a further increase in the domestic price to approximately 71 cents an ounce.

Immediately the world price of silver jumped to 69½ cents spot, and over 71 cents forward, speculators all over the world interpreting this move by the United States as evidence of the determination of this Government to press forward vigorously in execution of the Silver Purchase Act. This Act, it will be remembered, calls for the accumulation of silver until the monetary value of the silver acquired equals 25 per cent of the total metallic stock of gold and silver, or until the price of silver reaches $1.29 an ounce. With open market prices for silver following close on the heels of the Treasury buying price for domestic metal, President Roosevelt on April 24 announced a second advance in the domestic price to 77.57 cents an ounce, whereupon the market jumped to 81¼ cents. Later when the President failed to announce immediately a third advance in the domestic price the market broke sharply to around 75-76 cents. However, there is no reason to believe that members of the silver party have revised their recently expressed views that the market is headed for the statutory limit of $1.29 an ounce.

Agitation for 16 to 1

Nor is there any promise that the price rise will stop there if the silver party has its way. Ever since the Government reduced the gold content of the gold dollar there has been growing agitation in the silver group for a similar cut in the silver content of the silver dollar. By reducing the gold content of the gold dollar from 25.8 grains of gold nine-tenths fine to 15 5/21 grains of similar fineness, without any corresponding change in the silver content of the silver dollar, the coinage relationship between the two metals in this country was changed from the traditional 16 to 1 ratio to 27 to 1,—that is, twenty-seven ounces of silver became the legal equivalent of one ounce of gold.

Now influential supporters of silver are advocating the old 16 to 1 ratio again, and during the past month have mustered up sufficient strength to force a favorable report from the Senate Agricultural Committee on a bill proposing mandatory Treasury purchases of at least 50,000,000 ounces of silver monthly until the metal reaches one-fourth of the metallic money stocks in terms of value, or until its relation in purchasing power shall be at the ratio of 16 to 1 of gold.

If this ratio is incorporated into the law of the land the Treasury will be obliged to pay $2.18 an ounce for large quantities of a metal the liquidating value of which would be problematical, and which was worth only about 45 cents in the world market before the United States Government started buying all the supplies in sight and bidding up the price.

Scant Supplies Aid Price Rise

An important factor in the silver situation is that outside of China and India there are no large supplies anywhere in the world, save only the current supply of new production, now running at a rate probably in excess of 200,000,000 ounces annually, and our Government cannot take all of this because of the requirements of industry and the arts. China, which uses silver as the basis of her monetary system, has already imposed restrictions upon the outflow of the metal, and other countries using substantial quantities of silver as money can be counted upon to take similar steps in the event that their currency systems are threatened. All of which tends to limit the

supply and facilitate the rise of the price, providing, of course, these countries are able to prevent their silver money from being melted down and sold in the face of the advancing market. It has been seen that China has experienced a great deal of difficulty in protecting her silver holdings against the high prices bid for them abroad.

India undoubtedly constitutes the largest potential source of supply, both on account of the large stocks held by the Treasury and the Reserve Bank of India, aggregating about 310,000,000 ounces, and the vast amounts of silver existing in private hoards. Sales from the Treasury stocks are limited by the London agreement to no more than 35,000,000 ounces annually, hence they cannot be a large factor in the situation. The private stocks are in a different category and no one knows how much of these may be drawn on to the market. It must be borne in mind, however, that speculators in India and elsewhere have knowledge of our silver law and are likely to hold on to silver, and even participate in the buying, as long as there is a probability of the price going higher. As a matter of fact, recent reports from London have indicated Indian speculators to have been active buyers of silver and an important factor in the rise of the price. Thus it is apparent that, with a large part of the world scrambling for silver, continued purchases by the United States may easily drive the price to $1.29 an ounce, and even beyond to the old 16 to 1 ratio, as now advocated by the more radical wing of the silver group, without the Treasury actually accumulating much silver.

The real question is, what will happen as prices of silver approach the top? When there is no longer any incentive to hold for a rise, speculators may want to take profits. In that case, only the United States Treasury will stand between the market and collapse. No other government is interested in bimetallism, or in bidding up the price of silver, hence with no support for the market elsewhere this country may find itself in the position of having to take over at top prices whatever stocks of silver have accumulated on the rise, and to pay for them in gold. It is understood that speculators in London hold something like 100,000,000 ounces which they hope to sell to the United States Government. Incidentally, whatever trading profits are realized on the rise of silver prices will go largely to foreign speculators and dealers, and Americans operating abroad, the 50 per cent tax on silver trading profits in this country having driven this business to foreign markets.

Progress of the U. S. Purchase Program

It is evident that under the law and on the basis of the present gold stocks, the United States Government still has a very large capacity for taking over these silver stocks and giving support to the market. This is notwithstanding a strenuous buying program extending into all corners of the globe, which has swept the market bare of offerings, nearly doubled the price, and produced deflation and distress among peoples using silver as their principal medium of exchange. The fact is that while the volume of silver purchased since June has amounted to nearly 400,000,000 ounces, the quantity of gold held by the Treasury has also increased, which means that the amount of silver required to make the total silver stocks equal to the 1 to 4 ratio with total stocks has been enlarged correspondingly.

In other words, the Treasury, despite its purchases, is not very much nearer the goal set by law than when the purchase program was started. More than a billion ounces of silver still remain to be bought, with little indication as to where it is all to come from. And the amount increases with every further addition to the gold stocks.

Effect of U. S. Silver Purchases on the Credit Base

Of course, if the gold stocks should be reduced in connection with the purchase of silver, the amount of silver needed to satisfy the 1 to 4 ratio naturally would be reduced also. Such a movement, however, on any large scale would seriously weaken the monetary basis of the dollar. The argument that the silver-buying program affords a means of redistributing some of this country's redundant gold stocks, and is therefore in the interest of world recovery, is misleading in that it fails to take account of all angles of the situation. It is true that some redistribution of our gold stocks would be a good thing, both for this country and for the rest of the world. This redistribution, however, should take place in the normal course of trade, and not by an exchange of gold for silver to be stored away uselessly in the Treasury. If we are to part with our gold we ought to get something in return that will be of some use and add to the wealth of the country. Vast stocks of silver accumulated at artificially high prices fulfill neither of these qualifications. There is nothing that can be done with them. They cannot be sold without breaking the market. They cannot be coined into money without inflating the currency. The country would be better off with stocks of pig iron, tin, or cord wood in the Treasury, as at least these commodities could be disposed of gradually for some salvage value, or consumed by the Government itself.

The principal objection, however, to the exchange of gold for silver lies in the assumption that silver at its present coinage value in

this country constitutes a valid substitute for gold as backing for the currency. The fact is that silver at this coinage ratio is merely another form of credit currency which circulates at full face value solely by reason of the policy of the United States to maintain all forms of money at par by making them freely interchangeable one with another and with gold. It cannot itself constitute reserve.

To the extent, therefore, that the United States goes ahead and erects a credit structure based on any large proportion of silver valued at $1.29 an ounce or higher it will be doing so upon highly insecure foundations. In case of a demand for redemption of the currency it would be utterly impossible to realize on these silver stocks at anything like these inflated values, if indeed it would be politically feasible for the Treasury to sell silver at all. Thus, the demands for redemption would fall wholly upon the gold stocks, with consequences that might mean carrying the country off the gold standard. In other words, if this country is going to lose gold it ought to be clearly recognized that the credit base will be reduced accordingly. It should not be imagined that in trading gold for silver we are maintaining our monetary reserves intact, and that we can safely use these reserves for credit and currency expansion to the same extent as though they were all in gold.

The Situation in China

We have referred in previous issues of this Letter to the adverse consequences of the American silver policy upon China. As has been stated, China's monetary system is based upon silver, hence the economic life of the country is vitally affected by the fluctuations of that metal. Our policy has been harmful to China for two reasons,—(1) because it raises the foreign exchange value of the Chinese currency, thus shutting off foreign markets, and (2) because it tends to drain the country of its circulating medium, with a consequent forced contraction of prices and the volume of business.

The Chinese have attempted, by means of an export tax and equalization fee upon silver exports, to control the movements of exchange and to prevent the exodus of silver, but their efforts have been only partly successful. Shanghai dollars have risen, though less rapidly than silver, and a great deal of silver has been smuggled out of the country, attracted by the high prices quoted abroad. As a result, the country continues in the grip of deflation, trade is stagnant, money is tight, a number of bank failures have taken place, and there is great apprehension regarding the future.

Whether there can be any hope of lasting improvement in China so long as the United States continues to push up the price of silver is very much to be doubted. Difficult as the situation there has been in the past, it has become steadily more so during the past month as silver soared to new high levels. Though the principal foreign banks have entered into an agreement with the Government not to export any silver and to endeavor to curb bear speculators, nevertheless the higher price of silver has given new encouragement to smugglers, and it remains to be seen whether the country's silver stocks can be protected. The danger, of course, lies in the possibility that China, either voluntarily or as a result of a panicky demand for specie, may decide to suspend conversion of banknotes and go frankly and completely over to paper money, with all the perils which that implies.

That the policy of putting up silver prices should have been advocated as a means of increasing the purchasing power of the Chinese to the end that they might buy more American goods is one of the ironical features of the situation. Trade statistics for China now available show how wide of the mark were these calculations. Actually, Chinese imports in January of this year were 14 per cent less in value than in January a year ago, and a similar trend was revealed by the figures for February which showed a reduction of 20 per cent as compared with February last year.

Spreading Repercussions of U. S. Silver Policies

In addition to increasing the difficulties of the Chinese position, the rise of silver is now causing disturbances over new and wider areas. During the past month Mexico has come within the orbit of unsettlement caused by our silver policies. This country, like China, uses silver as a principal medium of exchange, and like China has faced the possibility of seeing its currency either driven up in value by the rise of silver, with consequent depressing effect upon internal trade and prices, or drained off to the United States, or both. With silver rising, the Mexican peso became worth more as metal than as currency, with the result that the exchange rate rose sharply, and it became profitable to melt down coins for shipment to the United States as bullion.

That Mexico would not delay long in acting to check the rise of the peso and prevent the country from being denuded of its silver was a foregone conclusion. On April 26, the Government announced a prohibition on the melting down or exportation of coin, at the same time calling in all silver money to be exchanged for paper money, which means that Mexico will now be able to have her exchange rate as low as she wants it.

One advantage which Mexico has over China in the present situation is that Mexico is a

large producer of silver and to that extent stands to benefit from higher silver prices. Silver exported from Mexico is being constantly replaced by the new supply from the mines, whereas in the case of China, silver shipped out of the country means just so much permanent loss except insofar as metal is repurchased abroad at higher prices. According to a recent decree, the Mexican Government has levied a graduated tax upon silver production based on silver prices, thus insuring to the government a substantial participation in the profit resulting from high prices.

The danger to Mexico in all this is the same as that which confronts China and every other country operating on a managed currency basis, namely, in the temptation to inflation.

As silver continues to advance, the number of currencies involved will increase. On the basis of present exchange rates Spanish pesetas will become more valuable as bullion than as money when silver reaches $1.02; the same will be true of Indian rupees when silver reaches around $1.06.

All of which adds further to the general state of disorganization that is impeding trade everywhere and delays the restoration of orderly exchange conditions so badly needed throughout the world.

Effects on Silver Consumption

It is to be considered that as silver prices rise, one country after another is being driven from the use of the metal, and given a compulsory education in the use of paper money. Fluctuations such as have been witnessed in the silver market cannot but tend to discredit silver as money. Furthermore, the rise in the value of silver is rapidly putting this metal beyond the reach of the masses of the Far East which require a cheap hard currency as a circulating medium. Ordinarily, the consumption of silver by China and India has been a principal factor in the demand. During the past few years exports of silver from both China and India have exceeded imports.

It should be borne in mind also that even before this recent rise in silver prices there was already a tendency in various countries to experiment with baser metals, notably nickel, as a substitute for silver. Nickel answers the purposes of money as well as silver, and its use in place of silver commends itself to governments on account of its cheapness. Naturally, the incentive for such substitutions is increased as the price of silver rises. There is no more reason to believe that the price of silver can be raised artificially without encouraging the use of substitutes than there is to suppose that the price of wood or rubber or cement can be put up without stimulating competitive commodities.

In short, what is happening is the destruction of the natural markets for silver, and if present policies are pursued the United States Treasury will be eventually the sole market for the metal. Then what will happen to silver prices when the United States has filled its quota of 25 per cent of its total monetary stock? Obviously, we cannot go on absorbing the world's silver supply indefinitely, or at last the over-valued metal will drive out gold and we shall find ourselves on the silver standard. Like all attempts to push prices beyond their economic levels, the silver boom is laying the basis for its own collapse.

Unemployment Insurance and Public Works Relief

On account of the disorganization of industry and trade resulting from the World War, the unemployment problem, protracted now over a period of five years, has been more serious than ever before, although unemployment always and inevitably has accompanied disorder in trade. It is true, and for obvious reasons, that an advanced society in which industry is highly developed and specialized, and thus dependent upon trade relations, is more subject to trade depressions than primitive societies in which most of the people either get their living direct from the land, woods or waters, or are employed in the simple hand services for neighborhood consumption. It is important that the cause of the abnormal conditions shall be understood. The conditions are calamitous and everybody so regards them. Nobody gains by them, all classes lose by them, and all desire to prevent them and mitigate them so far as possible.

It is proper to say this as preliminary to a discussion of proposals for unemployment insurance, public works undertakings and other expenditures for unemployment relief, because the proponents of such measures seem to assume that any dissent to their proposals is prompted by lack of appreciation of the gravity of the conditions or indifference to them. Such assumption is wholly untrue.

There is practically no dissent from the view that in a disordered state of industry and trade, such as now exists, public relief must be afforded to properly care for persons who are unable to obtain employment and are without means of self-support, and of course for their families. No issue exists over this proposition, the only question arising being as to the methods proposed. It is a grave problem, for it is one of great magnitude, acutely affecting the welfare of millions of people. It is not too much to say that the five years of depression, resulting from the War have cost more in human suffering than did the War itself.

There are two different approaches to the unemployment problem which should be clearly understood. One is by way of a destructive attack upon the economic system by which the progress of the past has been accomplished, asserting its responsibility for the disorder and seeking its overthrow, from the foundations up. The leaders of this attack are avowed enemies of the institutions upon which this nation is founded, but much support to their agitation is given by persons who, without sharing in their full purposes, are more or less persuaded that because the economic system is in disorder it must be itself responsible for the disorder, another assumption which does not stand examination. As well say that the moral order of society is responsible for the violations of it.

The other approach to the subject of unemployment relief is by way of three premises, to-wit: 1st, that the present state of unemployment is abnormal and unnecessary, caused by the War and resulting from derangements in a complex system of production and trade, which when in order is highly beneficial to every group composing it; 2nd, that the derangements may be rapidly corrected, and the depression overcome, by intelligent cooperation between the different groups of the system, but that it may be protracted indefinitely, and may become worse, if the derangements are not corrected; and, finally, that no system of mere relief, which does nothing more than support the helpless population in a dependent position—either through doles or public works that compensate neither the Treasury nor the public for the expenditures upon them—can possibly take the place of the free and natural system of self-supporting industry.

The Mutual Relationships of the System

The system as it has existed since primitive times is essentially cooperative, consisting of an exchange of services. The workers in the shoe factories are making shoes for all the other workers; the workers in the textile mills are making cloth for all the clothing and the clothing industries are making up the clothing; in like manner all the specializing groups are supplying each other, the farmers in the fields are producing food for everybody, and the workers upon the railroads are carrying the vast variety of products to and fro in the exchanges. The great bulk of all these products are distributed into the homes of the workers who operate the industries, and who, together with the farmers and other unincorporated businesses, receive about 80 per cent of the national income. The system cannot function without cooperation between its parts, and since every group receives benefits from it, all owe loyalty to it and to each other. There must be "team work" throughout the system or there will be confusion and unemployment. This is the meaning of the "equilibrium in industry" often referred to in these columns.

These premises lead inevitably to the conclusion that it is of the first importance that *normal exchange relations* shall be re-established throughout the system, and that every policy proposed as a mere measure of "relief" shall be carefully examined as to the influence it will have upon *recovery*. Every group and class is interested in *recovery:* while the needy must be cared for, they are themselves concerned that efforts in their behalf shall not protract the depression.

Unemployment Insurance

The bill pending before Congress proposes to create a fund for the unemployed by a tax levied upon employers as a percentage of their payrolls. It contemplates that the States shall cooperate in the system, and that 90 per cent of the collections under the Federal Act shall be apportioned to the States for disbursement in connection with any sums raised by themselves for the same purpose. The States are to determine whether or not the wage-earners shall contribute any part of the aggregate sum and what part. In either case, it will be a charge upon production, and it promises a controversy in every State over whether employers shall pay all of the tax or the wage-earners shall bear a share of it. The vital question is, what effects will it have upon general purchasing power, consumption, industry and employment? Certainly all of these will be affected.

The theory commonly advanced by advocates of the tax is that, since unemployment is an inevitable incident of the present economic system, the cost should be added to the price of the product and paid by consumers, like other costs, and as now provided in cases of personal injury accidentally occurring in industry. This theory has an element of truth in it which makes it plausible and sound to a degree, but all mutual undertakings are subject to qualifying conditions. In the first place, it is a basic principle of all systems of insurance that the insured shall cooperate so far as practicable to avoid or minimize a loss; no system of insurance could endure otherwise. Next it should be said that this plan for unemployment insurance is not expected to care immediately for unemployment upon the scale now existing; but is to provide a beginning of accumulations intended to eventually do so. The first comment in order is that inasmuch as no fund exists at present this is an inopportune time to start the plan. The industries are needing all their resources to keep going, without accumulating funds for unemployment relief in some future de-

pression. Furthermore the first effect of the tax must be to increase production costs and prices, which must unfavorably affect the demand for products, thus *tending to delay recovery*.

This increase of costs would be especially unfortunate at this time in the case of the industries producing capital, or so-called "durable," goods, i.e., goods that are not purchased regularly, but from time to time, as convenience, new designs, expanding business or other reasons, may suggest,—which is a class of goods always in low demand in a time of depression. Dr. Charles F. Roos, an economic adviser to the N. R. A. has estimated that in the Spring of 1934, there were about 10,000,000 unemployed, altogether, of whom about 5,000,000 were in the building trades and durable goods industries, with an additional 4,000,000 in the service trades and only about 800,000 idle in the consumption goods industries. Estimates by other informed persons are closely in line. Clearly it would be undesirable to increase costs and prices in industries which are lagging behind; just the opposite treatment is needed.

The Valid Argument for Unemployment Relief

The valid argument for unemployment insurance is based upon the evident truth that the individual worker is not responsible for his loss of employment in a general depression, since it results from causes that are beyond his control. Obviously this is true of the present situation, for the individual workers had no part in starting the World War, but the same is true of the individual employer. The latter had no greater responsibility in this than his employes, and could do no more than adapt his policies as best he might to the changing conditions which followed, requiring in such efforts the cooperation of his working force. Under present conditions the theory that the cost of insurance can be passed on to consumers does not hold good in any uniform or general sense, as may be seen in the effects of the processing taxes. The only certainty is that it will be an obstruction to business. It is a reasonable conclusion, therefore, that the cost of unemployment resulting from extraordinary disorders (as in the case of War or possibly other governmental policies) should be met by levies which fall upon the incomes of all the people, and not primarily upon the employers of labor, who under such conditions are already involved in a multitude of difficulties. At such a time every group and class is interested in maintaining the economic organization in working order. A breakdown of any part will increase disorder throughout the system.

The Present State of the Industries

As reported by the United States Bureau of Internal Revenue, all corporations engaged in manufacturing had aggregate net income results in the last four years for which the returns have been published, as follows, the figures being percentages of the aggregate turnover of business: 1930, +1.31%; 1931, —2.24%; 1932, —5.97%; 1933, +0.27%. In the four years the weighted average was —1.25%. The returns for 1934 will not be available until the latter part of 1935, but it is beyond question that the consolidated average for the five years 1930-34 will show a deficit for the period. Equally important with these figures is the proportion of the total number of reporting active companies which in each year was operating at a loss, which was as follows: 1930, 55.6%; 1931, 66.0%; 1932, 82.9%; 1933, 70.1%.

It cannot be doubted that in addition to the companies reporting losses there are many whose net earnings were but slightly above the line dividing profit from loss, and it is evident that the manufacturing industries as a group have been under continuous and heavy pressure over the last five years. Reserves, working capital and credit have been impaired and the problem confronting many of them is that of surviving from year to year, in hopes that business conditions will improve. They are not in condition to begin the creation of a "fund" to serve as a backlog against future depressions. That is a theoretical proposal which is anything but timely under present conditions.

Supplementary to the above figures of net earnings, the census returns for the manufacturing industries in 1933, made public on the 18th of last month, are in order. The census of manufactures is taken biennially, falling in the odd-numbered years. This report shows that in 1929 there were 209,862 such establishments, employing 8,821,757 wage-earners, and their products that year were valued at $69,960,909,712. In 1931, the number of establishments dropped to 174,220; wage-earners to 6,506,701, and value of products to $41,038,402,307. In 1933, the number of establishments had declined further, to 141,769, the value of the products to $31,358,840,338, and the number of wage-earners to 6,055,736. The decline in the number of wage-earners last reported seems relatively small, but account must be taken of the work-spreading policy and shorter hours of employment. This is revealed in the amount of wages paid in each of the census years, which was $11,607,287,154 in 1929, $7,173,231,655 in 1931 and $5,261,576,029 in 1933.

A calculation will show that while the number of wage-earners fell off 31 per cent from 1929 to 1933 the aggregate of wage-payments fell off 54 per cent. As the average reduction of wage-rates in that period has

been calculated by responsible experts at about 16 per cent, it is evident that the loss of wages resulted mainly from unemployment, (full or part time) and primarily from the disorder in price relations, a subject which is vitally related to the problem of recovery, but which we cannot follow here.

Influences Upon Industrial Concentration

It is true that all producers are not in desperate straits; all lines of industry are not affected in like degree by the depression and some companies are more favorably situated, or have larger resources or lower costs than others. These naturally will survive, and as weaker rivals disappear there may be more business for the survivors, although if the general state of disorganization and unemployment is aggravated this cannot be counted on as certain. The effect must be to crowd out the weaker competitors, thus tending to a further concentration of industry in the hands of the stronger. If the stronger pay the tax out of profits and the weaker must pass it on to the public in higher prices, the process of concentration will be quickened. Much may be said in favor of economical production and industrial progress, but there remains the question whether a time of distress like the present is opportune for a ruthless application of the doctrine of the survival of the fittest.

Only the prosperous industries can pay the taxes out of profits; possibly they may benefit by an increasing volume of business as suggested, in which case they may be theoretically able to take over the workers thrown out of employment by the closing industries, but such shifts are not easily made on a large scale; they may involve costly removals, and on the whole the prospect would be for more unemployment and confusion. It cannot be helpful to the employment situation to have more burdens placed upon all employers at this time. The tax is not a levy on profits, but on payrolls, and would tend to reduce rather than increase the latter.

Relief by Public Works

The foregoing comments upon the payroll tax apply in appropriate degree to all taxation and borrowing for relief purposes, whether the expenditures be made by doles or relief employment, national, state or local. The obligation to care for the destitute does not require a policy that is inconsiderate of the burdens which may be imposed upon the rest of the community at a time when all incomes are reduced, and when many persons who by industry and thrift have acquired property are in danger of losing it. At all times many owners of homes and other property are in debt, and loss of employment or business reverses, involves them in the common difficulties of the depression. In many localities an important proportion of the taxes have become uncollectible because property owners are impoverished, and collection by sale and dispossession on a large scale is simply not to be thought of. Even persons of large wealth seldom possess it in money, but usually in property employed in production, giving work to wage-earners. Their incomes are dependent upon the flow of business, and to increase taxation unduly upon either the business or the owners at a time when the business is yielding no net earnings, must increase the state of disorder.

Fixed wealth in the form of farms, business blocks, warehouses, residences, factories, industrial equipment, etc., cannot be distributed piecemeal or converted into consumption goods. Much of it is mortgaged, and in any event its only value is for the uses to which it is suited. All of the wastes, costs and losses of the depression, in the form of actual disbursements, including the losses from business operations and the cost of unemployment relief, must come from current production, or out of the working capital of business, i. e., stocks of goods, materials and cash on hand, which in the aggregate amounts to only a small percentage of the country's computed wealth. This working capital is necessary to the maintenance of the business organization.

The business organization plans and directs all of the economic activities, provides the employment, the income, the daily production and distribution of the necessaries of life to all of the people. This organization has developed through all of the past, and anything like a general breakdown and suspension of its activities would mean chaos. Wage-earners are as much dependent upon it as stockholders. It is not in the interest of the wage-working class that the working capital of the industries shall be dissipated in losses year after year. Every bankruptcy and suspension of operations means more workers out of employment and a further loss of purchasing power. The entire program of unemployment relief, whatever it may be, and of support for all the activities of the governments, national, state and local, depends upon the maintenance of the business organization.

Public works employment is preferable to a dole if real values are created by the expenditures, and are realized so promptly that they enable the tax-payers to meet the demands which the policy makes upon them, but results which are so distant or fanciful as to have no practical value to the taxpayers who must bear the burden are no justification for the increased burden. A great increase of indebtedness for such purposes, with continuing interest charges, becomes a lien upon the future earnings of the taxpayers that may become not only confiscatory, but a serious ob-

stacle to business recovery. In like manner, any resort to such expedients as paper money issues, to enable expenditures to be made without taxation or borrowing, will result in nothing but more confusion. The monetary system and the entire system of organized production by which employment is furnished and the daily wants of the people are supplied, may be broken down completely by a mistaken policy of government expenditures. The outcome of such policies is not relief or recovery, but, if persisted in, ruin for everybody.

A relief dole, or public wage for work which is not needed, and which is a burden to the taxpayers, has no relation to the wage of self-supporting and profitable industry, except that it is a burden upon the latter. Always the wage for public work which is not needed should be less than the wage in private industry, for the frankly-stated purpose that labor may be shifted as rapidly as possible from unprofitable to profitable employment.

The All-Important Aim

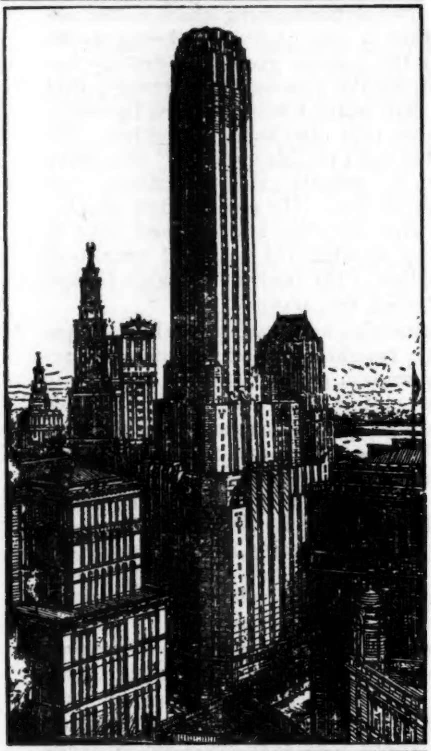
Constantly the matter of overshadowing importance is that of restoring the normal state of industry and trade which will enable every worker to have a regular job at good wages. At best, "relief" is only a makeshift, repugnant and therefore degrading to recipients, a sign of social stagnation and waste and of moral deterioration. As long as "relief" is necessary the dreary record of the depression must be extended; the story of bankruptcies, foreclosures, wrecked fortunes, disrupted homes, ruined lives, the daily list of suicides, and the constant menace of possibly increasing insecurity and disorder. It means a continuance of the pressure, reducing old age to penury, with middle age in apprehension, while youth at the gateway of life is told that there are no places for it.

There can be no relief from the existing situation in mere provisions to support and maintain it; the only real relief must come by a revival of life, enterprise and activity throughout the economic system that will start all the currents of trade to flowing in a normal manner. Trade consists of an exchange of services, give and take on a mutually advantageous basis, and on terms that will clear the markets. Obviously something is wrong with the exchanges, for the markets are not cleared; the blockade must be raised by readjustments in the exchange relations, and in a free and voluntary economic system the incentive to correct maladjustments is economic pressure. Artificial relief from economic pressure is an anesthetic which not only dulls the senses, but stifles the recuperative powers.

It will be said that economic pressure is cruel, but there are two answers to this: first, that there is cruelty in present conditions, and the more because the "relief" affords no hope of remedy, and, second, that all of the laws of the universe are "cruel" to persons who quarrel with them, although kindly and beneficent to those who conform to them. The economic system is always undergoing change, the relations within it are constantly being modified, all for the general good, and nobody has immunity from the common requirement that every one shall adapt himself as best he can to the conditions that take shape about him. He has no better right to "his own way" than have others, and no greater claim on others than others have on him. He must expect to play the game with the rest, and the best way to play it is by seeking the fair and reciprocal relations between the industries which always afford *prosperity and security.*

These principles are fundamental to organized society, taught by all experience and accepted by common sense. They do not nullify the above statement that helpless people should be cared for and helped to help themselves. The two views are not inconsistent, but belong together in a sound policy. Furthermore, all must expect to share the losses resulting from economic disorganization, and to do their part in restoring normal conditions. The only remedy for unemployment is the restoration of balanced relations throughout industry.

The pressure for unemployment insurance is based upon a belief that unemployment is a necessary feature of the free economic system, which is only true in so far as individuals in their relations with each other fail to make themselves mutually serviceable, or as great influences, set in motion by governments, or mass movements of some unusual kind, disturb the orderly processes of everyday industry and trade. The unemployment that is incidental to the ordinary or evolutionary changes in the economic system is of small proportions, although important enough to call for intelligent and careful consideration, but the unemployment which results from a World War is far beyond the provisions of any of the plans that are offered now. These do not touch the real difficulties of the problem, such as how to hold, or invest, the vast fund which they propose to accumulate or how to realize on it when needed, or recognize the cause of unemployment. They are prompted by sentiment (a noble motive if guided by wisdom) and impatience (a dangerous motive force) and are essentially superficial, incomplete and inadequate, unsuited to present conditions. They do nothing to end the depression, but must tend to protract it, and with the Treasury deficit running at billions per year the *time* element is an imperative factor.



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